

Mr. John P. Barber, Executive Vice President and Chief Financial Officer
White Oak Manor, Inc.
Post Office Box 3347
Spartanburg, South Carolina 29304

Re: AC# 3-WOY-J7 – White Oak Manor - York

Dear Mr. Barber:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1996 through September 30, 1997. That report was used to set the rate covering the contract periods beginning October 1, 1998.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/cwc

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Robert M. Kerr

**WHITE OAK MANOR, INC.
D/B/A WHITE OAK MANOR - YORK**

YORK, SOUTH CAROLINA

**CONTRACT PERIODS
BEGINNING OCTOBER 1, 1998
AC# 3-WOY-J7**

**REPORT ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

CONTENTS

| | <u>EXHIBIT OR SCHEDULE</u> | <u>PAGE</u> |
|--|---|--------------------|
| INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES | | 1 |
| COMPUTATION OF RATE CHANGE FOR THE CONTRACT PERIODS BEGINNING OCTOBER 1, 1998 | A | 3 |
| COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIOD OCTOBER 1, 1998 THROUGH NOVEMBER 30, 1998 | B-1 | 4 |
| COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIOD DECEMBER 1, 1998 THROUGH SEPTEMBER 30, 1999 | B-2 | 5 |
| SUMMARY OF COSTS AND TOTAL PATIENT DAYS FOR THE COST REPORT PERIOD ENDED SEPTEMBER 30, 1997 | C | 6 |
| ADJUSTMENT REPORT | 1 | 8 |
| COST OF CAPITAL REIMBURSEMENT ANALYSIS | 2 | 9 |

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

June 18, 1999

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with White Oak Manor, Inc. d/b/a White Oak Manor - York, for the contract periods beginning October 1, 1998, and for the twelve month cost report period ended September 30, 1997, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with the standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by White Oak Manor, Inc. d/b/a White Oak Manor - York, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and White Oak Manor, Inc. d/b/a White Oak Manor - York dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computations of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
June 18, 1999

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

Thomas L. Wagner, Jr., CPA
State Auditor

WHITE OAK MANOR - YORK
Computation of Rate Change
For the Contract Periods
Beginning October 1, 1998
AC# 3-WOY-J7

| | <u>10/01/98-</u> <u>11/30/98</u> | <u>12/01/98-</u> <u>09/30/99</u> |
|--------------------------------|-------------------------------------|-------------------------------------|
| Interim reimbursement rate (1) | \$94.76 | \$95.51 |
| Adjusted reimbursement rate | <u>93.46</u> | <u>94.21</u> |
| Decrease in reimbursement rate | \$ <u>1.30</u> | \$ <u>1.30</u> |

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 8, 1998

WHITE OAK MANOR - YORK
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 1998 Through November 30, 1998
AC# 3-WOY-J7

| | <u>Incentives</u> | <u>Allowable Cost</u> | <u>Cost Standard</u> | <u>Computed Rate</u> |
|--|-------------------|---------------------------|--------------------------|--------------------------|
| <u>Costs Subject to Standards:</u> | | | | |
| General Services | | \$45.75 | \$49.90 | |
| Dietary | | 10.70 | 9.93 | |
| Laundry/Housekeeping/Maint. | | <u>8.57</u> | <u>8.11</u> | |
| Subtotal | <u>\$2.92</u> | 65.02 | 67.94 | \$65.02 |
| Administration & Med. Rec. | <u>\$3.02</u> | <u>7.88</u> | <u>10.90</u> | <u>7.88</u> |
| Subtotal | | 72.90 | <u>\$78.84</u> | 72.90 |
| <u>Costs Not Subject to Standards:</u> | | | | |
| Utilities | | 2.88 | | 2.88 |
| Special Services | | .11 | | .11 |
| Medical Supplies & Oxygen | | 3.03 | | 3.03 |
| Taxes and Insurance | | 1.26 | | 1.26 |
| Legal Fees | | <u>.02</u> | | <u>.02</u> |
| TOTAL | | <u>\$80.20</u> | | 80.20 |
| Inflation Factor (3.60%) | | | | 2.89 |
| Cost of Capital | | | | 8.37 |
| Cost of Capital Limitation | | | | - |
| Profit Incentive (Max. 3.5% of Allowable Cost) | | | | 2.81 |
| Cost Incentive | | | | 2.92 |
| Effect of \$1.75 Cap on Cost/Profit Incentives | | | | (3.98) |
| Minimum Wage Add-On | | | | <u>.25</u> |
| ADJUSTED REIMBURSEMENT RATE | | | | <u>\$93.46</u> |

WHITE OAK MANOR - YORK

Computation of Adjusted Reimbursement Rate
For the Contract Period December 1, 1998 Through September 30, 1999
AC# 3-WOY-J7

| | <u>Incentives</u> | <u>Allowable Cost</u> | <u>Cost Standard</u> | <u>Computed Rate</u> |
|--|-------------------|---------------------------|--------------------------|--------------------------|
| <u>Costs Subject to Standards:</u> | | | | |
| General Services | | \$45.75 | \$49.90 | |
| Dietary | | 10.70 | 9.93 | |
| Laundry/Housekeeping/Maint. | | <u>8.57</u> | <u>8.11</u> | |
| Subtotal | <u>\$2.92</u> | 65.02 | 67.94 | \$65.02 |
| Administration & Med. Rec. | <u>\$3.02</u> | <u>7.88</u> | <u>10.90</u> | <u>7.88</u> |
| Subtotal | | 72.90 | <u>\$78.84</u> | 72.90 |
| <u>Costs Not Subject to Standards:</u> | | | | |
| Utilities | | 2.88 | | 2.88 |
| Special Services | | .11 | | .11 |
| Medical Supplies & Oxygen | | 3.03 | | 3.03 |
| Taxes and Insurance | | 1.26 | | 1.26 |
| Legal Fees | | <u>.02</u> | | <u>.02</u> |
| TOTAL | | <u>\$80.20</u> | | 80.20 |
| Inflation Factor (3.60%) | | | | 2.89 |
| Cost of Capital | | | | 8.37 |
| Cost of Capital Limitation | | | | - |
| Profit Incentive (Max. 3.5% of Allowable Cost) | | | | 2.81 |
| Cost Incentive | | | | 2.92 |
| Effect of \$1.75 Cap on Cost/Profit Incentives | | | | (3.98) |
| Minimum Wage & CNA Add-Ons | | | | <u>1.00</u> |
| ADJUSTED REIMBURSEMENT RATE | | | | <u>\$94.21</u> |

WHITE OAK MANOR - YORK
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1997
AC# 3-WOY-J7

| <u>Expenses</u> | Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u> | Adjustments <u>Debit</u> | <u>Credit</u> | <u>Adjusted Totals</u> |
|-------------------------------------|--|-----------------------------|--------------------------------|----------------------------|
| General Services | \$1,100,905 | \$ - | \$ - | \$1,100,905 |
| Dietary | 261,129 | - | 3,509 (4) | 257,620 |
| Laundry | 38,978 | - | - | 38,978 |
| Housekeeping | 75,930 | - | - | 75,930 |
| Maintenance | 91,393 | - | - | 91,393 |
| Administration & Medical Records | 189,590 | - | - | 189,590 |
| Utilities | 75,293 | - | 5,919 (2) | 69,374 |
| Special Services | 2,586 | - | - | 2,586 |
| Medical Supplies & Oxygen | 72,941 | - | - | 72,941 |
| Taxes & Insurance | 36,417 | - | 5,977 (3) | 30,440 |
| Legal Fees | 525 | - | - | 525 |
| Cost of Capital | 216,594 | | 1,238 (1) <u>13,924 (5)</u> | 201,432 |
| Subtotal | 2,162,281 | - | 30,567 | 2,131,714 |

WHITE OAK MANOR - YORK
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1997
AC# 3-WOY-J7

| <u>Expenses</u> | Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u> | Adjustments <u>Debit</u> | <u>Credit</u> | Adjusted <u>Totals</u> |
|-----------------------------|--|--|-----------------|---------------------------|
| Ancillary | 1,919 | - | - | 1,919 |
| Non-Allowable | (63,241) | 1,238 (1) 5,977 (3) 3,509 (4) <u>13,924 (5)</u> | - | (38,593) |
| Total Operating Expenses | <u>\$2,100,959</u> | <u>\$24,648</u> | <u>\$30,567</u> | <u>\$2,095,040</u> |
| TOTAL PATIENT DAYS | <u>24,066</u> | <u>-</u> | <u>-</u> | <u>24,066</u> |
| TOTAL BEDS | <u>66</u> | | | |

WHITE OAK MANOR - YORK
Adjustment Report
Cost Report Period Ended September 30, 1997
AC# 3-WOY-J7

| <u>ADJUSTMENT NUMBER</u> | <u>ACCOUNT TITLE</u> | <u>DEBIT</u> | <u>CREDIT</u> |
|------------------------------|---|--------------|---------------|
| 1 | Accumulated Depreciation | \$ 923 | |
| | Other Equity | 52,784 | |
| | Nonallowable | 1,238 | |
| | Fixed Assets | | \$53,707 |
| | Cost of Capital | | 1,238 |
| | To adjust fixed assets and related depreciation to allowable HIM-15-1, Section 100 State Plan, Attachment 4.19D | | |
| 2 | Start-Up Cost | 5,919 | |
| | Utilities | | 5,919 |
| | To reclassify expense related to Start-Up cost HIM-15-1, Section 2132 | | |
| 3 | Nonallowable | 5,977 | |
| | Taxes, Licenses, Insurance | | 5,977 |
| | To adjust Property Tax Expense to allowable State Plan, Attachment 4.19D | | |
| 4 | Nonallowable | 3,509 | |
| | Dietary | | 3,509 |
| | To correct provider's adjustment #14 to Reclass PTA Pen Therapy Nutrient State Plan, Attachment 4.19D | | |
| 5 | Nonallowable | 13,924 | |
| | Cost of Capital | | 13,924 |
| | To adjust capital return to allowable State Plan, Attachment 4.19D | | |
| | | <hr/> | <hr/> |
| | TOTAL ADJUSTMENTS | \$84,274 | \$84,274 |

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

WHITE OAK MANOR - YORK
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1997
AC# 3-WOY-J7

| | Original <u>66 Beds</u> | 33 Bed <u>Addition</u> | |
|---|----------------------------|---------------------------|-----------------|
| Original Asset Cost (Per Bed) | \$ 15,618 | \$ 15,618 | |
| Inflation Adjustment | <u>2.1814</u> | <u>2.1814</u> | |
| Deemed Asset Value (Per Bed) | 34,069 | 34,069 | |
| Number of Beds | <u>66</u> | <u>33</u> | |
| Deemed Asset Value | 2,248,554 | 1,124,277 | |
| Improvements Since 1981 | 823,657 | - | |
| Accumulated Depreciation at 9/30/97 | <u>(344,391)</u> | <u>(51,163)</u> | |
| Deemed Depreciated Value | 2,727,820 | 1,073,114 | |
| Market Rate of Return | <u>0.067</u> | <u>0.067</u> | |
| Total Annual Return | 182,764 | 71,899 | |
| Return Applicable to Non-Reimbursable Cost Centers | (202) | (79) | |
| Allocation of Rent and Interest to Non-Reimbursable Cost Centers | <u>-</u> | <u>-</u> | |
| Allowable Annual Return | 182,562 | 71,820 | |
| Depreciation Expense | 80,390 | 51,163 | |
| Amortization Expense | 2,561 | - | |
| Capital Related Income Offsets | (2,141) | (846) | |
| Allocation of Capital Expenses to Non-Reimbursable Cost Centers | <u>(107)</u> | <u>(42)</u> | <u>Total</u> |
| Allowable Cost of Capital Expense | 263,265 | 122,095 | \$385,360 |
| Total Patient Days (Minimum 97% Occupancy) | <u>24,053</u> | <u>11,684</u> | <u>35,737</u> |
| Cost of Capital Per Diem | \$ <u>10.95</u> | \$ <u>10.45</u> | \$ <u>10.78</u> |

WHITE OAK MANOR - YORK
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1997
AC# 3-WOY-J7

| | Original <u>66 Beds</u> | 33 Bed <u>Addition</u> |
|--|----------------------------|---------------------------|
| <u>Cost of Capital Calculation - Using Policy Prior 7/1/89</u> | | |
| Interest Expense | \$ - | |
| Depreciation Expense | 80,390 | |
| Amortization Expense | 2,561 | |
| Income Offsets | (2,141) | |
| Allocation of Capital Expenses to Non-Reimbursable Cost Centers | <u>(107)</u> | |
| Allowable Cost of Capital Expense | 80,703 | |
| Total Patients Days (Minimum 97% Occupancy) | <u>24,053</u> | |
| Cost of Capital Per Diem | 3.36 | \$ N/A |
| Add: Cost of Capital Maximum Increase | <u>3.99</u> | <u>N/A</u> |
| Total Cost of Capital | \$ <u>7.35</u> | \$ <u>10.45</u> |

Weighted Average Reimbursable Cost of
Capital Per Diem

*\$ 8.37

*(24,066 x \$7.35 + 122,095) ÷ 35,737